# VII PUBLIC DEBT MANAGEMENT

*The Reserve Bank could conduct debt management operations during the year in an orderly manner despite facing challenges emanating from exchange rate volatility and inflationary pressures. Under the switch operations in G-secs, some of the near term maturing debt with institutional investors was switched to long-term debt. Also, buyback of debt from the market was undertaken through reverse auctions. These actions contributed to strengthening the maturity structure of the government debt, improving liquidity in the debt market and mitigating rollover risks.*

VII.1 The central government's high borrowing requirement during 2013-14 along with inflationary pressures and adverse market conditions on account of exchange rate volatility were the major challenges in debt management during the year. Notwithstanding these challenges,borrowing programme was conducted in a smooth and orderly manner in co-ordination with the government. The debt management strategy focused on elongating maturity with a view to containing rollover risk, given the limited scope to issue securities in the less than 10 years maturity buckets. It also undertook switching operations whereby short-term debt was replaced with longer maturity debt to reduce rollover risks. It also conducted the buyback of short-term debt to reduce short-term redemption pressure. The borrowing programmes of state governments were also conducted smoothly.

## DEBT MANAGEMENT OF THE CENTRAL GOVERNMENT

*Market Borrowings*

VII.2 The gross and net amounts raised through dated securities in 2013-14 were marginally higher than the amount raised in the previous year (Table VII.I). As compared to 2004-05, the Centre's net market borrowings stood 10 times higher. The volatile market conditions, particularly during July-September 2013-14, posed further challenges. The Reserve Bank switched to uniform price auctions in dated GoI securities to enhance market participation in uncertain market conditions. As compared to the previous year, there was a marginal increase in cost (8.45 per cent *versus* 8.36 per cent) and higher devolvement on primary dealers (securities of ₹175 billion in 26 auctions as compared to ₹18 billion in 3 auctions during the previous year).

VII.3 To ease the redemption pressure for financial year 2014-16, switch operations in G-secs for ₹317 billion were carried out with institutional investors. Buyback of short-term securities amounting to ₹156 billion from the market was completed through reverse auctions in March 2014.

VII.4 The average maturity of debt issuances (based on original maturity) during 2013-14 increased to 15.1 years from 13.5 years in 2012-13.

**Table VII.1: Gross and Net Market Borrowings of the Central Government #**

(₹ billion)

| Item | 2004-05 | 2011-12 | 2012-13 | 2013-14* | 2014-15 (BE)* |
|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 |
| Net Borrowings | 460 | 4,364 | 4,674 | 4,685 | |
| | (905) | (3,430) | (4,790) | (4,840) | (4,612) |
| Gross Borrowings | 803 | 5,100 | 5,580 | 5,635 | |
| | 1,248 | (4,171) | (5,696) | (5,790) | (6,000) |

#: Issuances through dated securities. *: Excludes buyback / switches.
**Note**: Figures in parentheses are budget estimates.

**Table VII.2: Central Government's Market Loans-A Profile#**

(yield in per cent / maturity in years)

| Year | Range of YTMs at Primary Issues | | | Issues during the year | | | Outstanding Stock (As at end-March) | |
|---|---|---|---|---|---|---|---|---|
| | under 5 years | 5-10 years | Over 10 years | Weighted Average Yield | Tenor of securities (Range) | Weighted Average Maturity | Weighted Average Maturity | Weighted Average Coupon |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 |
| 2008-09 | 7.71-8.42 | 7.69-8.77 | 7.77-8.81 | 7.69 | 6-30 | 13.80 | 10.45 | 8.23 |
| 2009-10 | 6.09-7.25 | 6.07-7.77 | 6.85-8.43 | 7.23 | 5-15 | 11.16 | 9.82 | 7.89 |
| 2010-11 | 5.98-8.67 | 7.17-8.19 | 7.64-8.63 | 7.92 | 5-30 | 11.62 | 9.78 | 7.81 |
| 2011-12 | 8.21-8.49 | 7.80-10.01 | 8.25-9.28 | 8.52 | 7-30 | 12.66 | 9.60 | 7.88 |
| 2012-13 | 8.82-8.21 | 7.86-8.76 | 7.91-8.06 | 8.36 | 5-30 | 13.50 | 9.67 | 7.97 |
| 2013-14 | 7.22-9.00 | 7.16-9.40 | 7.36-9.40 | 8.45 | 6-30 | 15.05 | 10.00 | 7.98 |

YTM: Yield to Maturity. #: Excludes issuances under MSS.

The weighted average maturity of the outstanding stock (based on residual maturity) increased to 10 years as on March 31, 2014 from 9.7 years as on March 31, 2013. The weighted average yield of dated securities issued (primary market) during the year increased by 9 bps to 8.45 per cent in 2013-14 from 8.36 per cent in 2012-13. The weighted average coupon on the outstanding stock of government dated securities (excluding inflation indexed bonds of ₹65 billion) increased marginally to 7.98 per cent as on March 31, 2014 from 7.97 per cent as on March 31, 2013 (Table VII.2).

VII.5 During 2013-14, 57 per cent of the market borrowings were raised through issuance of dated securities with residual maturity of more than 10 years (Table VII.3). To mitigate the bunching risk, the share of securities with more than 15-year maturity in the total issuance was increased to 33.4 per cent during the year from 26.5 per cent during 2012-13. Commensurately, the share of securities with less than 5-year maturity was reduced from 8.4 per cent to 2.0 per cent during 2013-14.

VII.6 The actual gross market borrowings of the central government for 2013-14 were reduced from the budgeted amount of ₹5,790 billion to ₹5,635 billion (97.3 per cent of the budgeted amount) as compared to ₹5,580 billion raised in 2012-13. As per the Union Budget 2014-15, the gross market borrowings through dated securities are placed at ₹6,000 billion, an increase of 6.5 per cent over the

**Table VII.3: Issuance of GoI Dated Securities - Maturity Pattern**

(Amount in ₹ billion)

| Residual Maturity | 2011-12 | | 2012-13 | | 2013-14 | |
|---|---|---|---|---|---|---|
| | Amount raised | Percentage to total | Amount raised | Percentage to total | Amount raised | Percentage to total |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| Less than 5 years | 180 | 3.50 | 470 | 8.42 | 110 | 1.95 |
| 5 -9.99 years | 2,340 | 45.88 | 1,910 | 34.23 | 2,305 | 40.91 |
| 10-14.99 years | 1,230 | 24.12 | 1,730 | 31.00 | 1,340 | 23.78 |
| 15 -19.99 years | 650 | 12.75 | 270 | 4.84 | 930 | 16.50 |
| 20 years & above | 700 | 13.73 | 1,200 | 21.51 | 950 | 16.86 |
| **Total** | **5,100** | **100.0** | **5,580** | **100.00** | **5,635** | **100.00** |

previous year (₹5,635 billion) while net borrowings are budgeted lower at ₹4,612 billion, a decline of 1.6 per cent over ₹4,685 billion. Market borrowings of ₹2,700 billion have been completed up to August 04, 2014. Weighted average yield during the period increased to 8.84 per cent from 7.75 per cent in the same period of 2013-14, while weighted average maturity declined to 14.14 years from 14.49 years.

VII.7 The yields on treasury bills hardened during the year reflecting a change in the monetary policy stance. Subsequent to the liquidity tightening measures introduced in mid-July 2013, yields peaked to 12.02 per cent, 12.01 per cent and 10.46 per cent, respectively, for 91-day, 182-day and 364-day T-bills. Primary market yields on the same stood at 8.86 per cent, 8.86 per cent and 8.89 per cent, respectively, at the last auction held in March 2014 which were higher by 67, 85 and 110 basis points than the respective yields at end-March 2013.

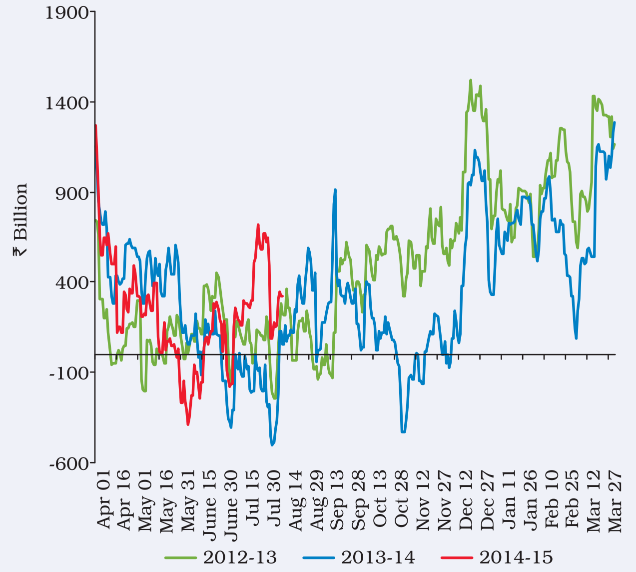
VII.8 Cash management bills (CMBs) were issued for ₹1,072 billion during July-September 2013 to manage the cash requirements of the government as well as to calibrate system liquidity for exchange rate management. The yield on CMBs ranged from 10.36 per cent to 12.28 per cent.

VII.9 Inflation indexed bonds (IIBs) for institutional investors were launched in June 2013 for an aggregate amount of ₹65 billion during 2013-14. IIBs for retail investors, namely, Inflation Indexed National Saving Securities–Cumulative (IINSS-C), were launched in December 2013. The response to these bonds was subdued due to its timing coinciding with the issue of various tax free bonds by PSUs, some of its design features and lack of product awareness among retail investors.

*Cash Management*

VII.10 The Government of India started the year 2013-14 with a surplus cash balance of ₹1,166 billion, but it took recourse to ways and means advances (WMA) on June 12, 2013 due to its expenditure commitments (Chart VII.1). It availed

**Chart VII.1: Cash Balance of the Government of India**




of WMA on ten occasions before building a positive balance starting December 7, 2013. Such a positive balance was maintained till end-March. The government ended the fiscal year with cash balances at ₹1,284 billion. During 2013-14, the government availed of WMA for 42 days and OD for 9 days (on 3 occasions) as compared to WMA for 40 days and no OD in the previous year.

VII.11 During 2013-14, WMA limits were fixed at ₹300 billion for April 1-September 30, 2013 and ₹200 billion for October 1, 2013- March 31, 2014. WMA limit for the first half of the financial year 2014-15 has been fixed at ₹350 billion.

## DEBT MANAGEMENT OF STATE GOVERNMENTS

*Market Borrowings*

VII.12 The net allocation under the market borrowing programme for state governments for 2013-14 was placed at ₹2,185 billion. Taking into account the repayments of ₹321 billion, the gross allocation amounted to ₹2,506 billion. State governments raised a gross amount of ₹1,967 billion in 2013-14 as against ₹1,773 billion in the

**Table VII.4: States' Market Borrowings**

(₹ billion)

| Item | 2011-12 | 2012-13 | 2013-14 | 2014-15 |
|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 |
| Net Allocation | 1,459 | 1,881 | 2,185 | NA |
| Additional Allocation | 157 | 0 | 0 | NA |
| Maturities during the year | 220 | 306 | 321 | |
| Gross Allocation | 1,835 | 2,187 | 2,506 | NA |
| Gross Sanctions under Article 293 (3) | 1,634 | 1,861 | 2,174 | 898* |
| Gross Amount Raised during the Year | 1,586 | 1,773 | 1,967 | 599* |
| Net Amount Raised during the Year | 1,366 | 1,467 | 1,646 | 440* |
| Amount Raised during the year as a % of Total Sanctions | 97 | 95 | 90 | 67* |
| SDLs outstanding (at the end of the period) | 7,424 | 9,291 | 10,418 | NA |

*: Up to 31st July, 2014.

previous year (Table VII.4). Two states (Assam and Odisha) did not participate in the market borrowing programme in 2013-14 as against one state (Odisha) in 2012-13. Twelve states did not utilise their full sanctions in 2013-14 as against 11 such states in 2012-13.

VII.13 The weighted average yield of state government securities issued during the year stood higher at 9.18 per cent as compared to 8.84 per cent during the previous year, tracking the general interest rate movements. The weighted average spread over the central government's weighted average yield increased to 75 bps during the year from 71 bps during the previous year. The actual market borrowings of state governments were broadly in alignment with the quantum indicated at the beginning of each quarter.

VII.14 During 2013-14, 26 tranches of auctions, spread over all the months of the year, were held for state governments' market borrowing programmes as compared with 28 tranches in the previous year. On an average, 10 state governments participated in an auction in 2013-14 as compared to 8 in 2012-13. As in the previous year, in addition to regular 10 year maturity bonds, SDLs of varying maturities of 4 and 5 years were issued and the response to them was good.

*Cash Management*

VII.15 The aggregate WMA limit at ₹102 billion for states, including the Union Territory of Puducherry was revised by 50 per cent of the existing limit from November 11, 2013 to ₹154 billion. The rate of interest on WMA, special drawing facility (SDF) and OD continued to be linked to the repo rate. The monthly average utilisation of SDF, WMA and OD by the states is given in Table VII.5.

VII.16 As compared to previous year, 2013-14 witnessed 13 states resorting to WMA as against 8 states, 13 states resorting to SDF against 9 states and 8 states resorting to OD against 6 states. The aggregate WMA limit for the state governments inclusive of the Union Territory of Puducherry is placed at ₹153.6 billion for the year 2014-15.

VII.17 The surplus cash balances of state governments are automatically invested in 14-day intermediate treasury bills (ITBs) of the central government. The Government of India continued to remunerate ITBs at a fixed rate of 5 per cent. The daily average investment in 14-day ITBs declined by about 15 per cent to ₹726 billion from ₹849 billion last year. States' outstanding investments in ITBs stood at ₹862 billion as at end-March 2014 as against ₹1,181 billion as at end-March 2013. The daily average investment of state governments in

**Table VII.5: Utilisation of WMA/OD and Investment of State Governments (Average monthly outstanding)**

(₹ billion)

| Months | SDF# | | | WMA | | | Overdraft | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2012-13 | 2013-14 | 2014-15* | 2012-13 | 2013-14 | 2014-15* | 2012-13 | 2013-14 | 2014-15* | 2012-13 | 2013-14 | 2014-15* |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 |
| April | 5.0 | 0.8 | 9.1 | 4.0 | 3.1 | 7.8 | 3.0 | 1.9 | 4.1 | 12.0 | 5.8 | 21.0 |
| May | 1.0 | 0.6 | 1.8 | 0.3 | 1.5 | 5.8 | 0.0 | 0.3 | 1.0 | 1.4 | 2.4 | 8.6 |
| June | 0.6 | 5.7 | 2.4 | 2.0 | 5.0 | 6.6 | 0.2 | 1.9 | 1.0 | 2.8 | 12.6 | 10.0 |
| July | 2.0 | 1.9 | 0.1 | 2.0 | 2.9 | 5.2 | 0.8 | 0.6 | 0.3 | 4.8 | 5.4 | 5.6 |
| August | 0.6 | 3.3 | | 1.0 | 2.7 | | 0.3 | 2.9 | | 1.9 | 8.9 | |
| Sept | 4.0 | 3.3 | | 4.0 | 1.8 | | 2.0 | 0.6 | | 10.0 | 5.7 | |
| Oct | 5.0 | 7.2 | | 4.0 | 3.8 | | 1.0 | 0.1 | | 10.0 | 11.1 | |
| Nov | 5.0 | 0.8 | | 4.0 | 0.0 | | 1.0 | 0.0 | | 10.0 | 0.8 | |
| Dec | 4.0 | 1.5 | | 4.0 | 3.7 | | 2.0 | 0.0 | | 10.0 | 5.2 | |
| Jan | 0.6 | 6.9 | | 1.0 | 5.2 | | 0.1 | 1.0 | | 1.7 | 13.1 | |
| Feb | 0.1 | 0.7 | | 3.0 | 4.1 | | 2.0 | 0.3 | | 5.1 | 5.1 | |
| Mar | 0.9 | 0.2 | | 1.6 | 4.0 | | 4.9 | 2.8 | | 7.4 | 7.0 | |

**Note:** Interest rate on SDF: 1 per cent below repo rate; WMA: repo rate for a period of 1-90 days and 1 per cent above repo rate for the period beyond 90 days; and OD: 2 per cent above repo rate for OD up to 100 per cent of WMA and for OD exceeding 100 per cent of WMA at 5 per cent above the repo rate.

#: With effect from June 23, 2014, the nomenclature of special ways and means advances has been changed to special drawing facility (SDF).

***:** Up to 31st July, 2014.

auction treasury bills (ATBs) increased to ₹597 billion from ₹441 billion in the previous year. The outstanding investment of state governments in ATBs at end-March 2014 was higher at ₹463 billion as against ₹286 billion at end-March 2013.

VII.18 The central government's Budget 2014-15 projected a moderate increase in gross market borrowings over the previous year. Continuing with the active debt management strategy adopted during 2013-14, the Budget has also made a provision of switching/buyback of debt. With the macroeconomic conditions manifesting signs of stability and inflationary pressures somewhat moderating, the market borrowings programme during 2014-15 is likely to be conducted smoothly.

VII.19 Nevertheless, debt management during 2014-15 may have to deal with other evolving challenges, *viz.*, reduction in the statutory liquidity ratio (SLR) for banks which provides demand for government securities (G-secs), likely pick-up in private credit off-take on the back of improvements in the economy and limited issuance space below 10 years maturity arising from huge redemption pressures in this bucket.